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SECRET/SENSITIVEBilateral RelationsBilateral Relations Background:

Since the turn of the year, U.S.-PRC bilateral relations have proceeded in low-key fashion without major developments. Trade, which reached a high point of \$922 million in 1974, now shows signs of dropping almost 50% in 1975 as a result of China's cutbacks in agricultural imports. This downturn does not seem to represent any political motivation, but rather reflects Peking's substantial balance of payments deficit (nearly \$1 billion), improved domestic agricultural production, and certain technical problems with American grain products. Chinese trading officials continue to indicate, however, that imports of high technology items from the U.S. will be sustained (an electronics industry delegation is scheduled to visit Peking in June), and Peking appears to be moving toward a more institutionalized trading relationship with us by sending industry delegations of their own to survey the American market. A textile production group visited the U.S. in March, and the China Council for the Promotion of International Trade is scheduled to send a delegation here in September.

Cultural exchanges continue on even keel, despite our cancellation of the performing arts troupe tour at the end of March. Peking has not retaliated for this development, despite some complaining by Foreign Minister Ch'iao to the Albert/Rhodes Congressional delegation. The Chinese recently agreed to a two month extension of the tour of their archaeological exhibition to include San Francisco, and approved a world affairs council delegation visit to the PRC in the fall. An American track and field team departs for Peking later this month, and the spring and summer visits to the U.S. of several PRC scientific groups will be capped by the tour of their Scientific and Technical Association -- the counterpart organization of our Committee on Scholarly Communication with the PRC.

The one recent note of discord in the exchange program is related to the expulsion from Canada early in May of a PRC diplomat, for security reasons. The Chinese Press Attache in Ottawa was surveilled by the Canadian authorities passing funds to several Canadian and

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American "revolutionary" groups, including the Revolutionary Union. This latter organization, a semi-covert Marxist-Leninist group with Maoist pretensions, set up the U.S.-China People's Friendship Association as a front organization. This latter group held a counter-press conference to protest our cancellation of the performing arts troupe tour, and shows signs of actively trying to build itself up as a mass-based alternative to the National Committee on U.S.-China Relations, the organization we have relied upon to facilitate cultural exchanges with the Chinese.

Political contacts with the PRC have been at a minimal level since January. You have seen Huang Chen only twice, and the half-dozen meetings Phil Habib and Win Lord have held with Han Hsu included the one positive note of informing Peking of our Taiwan air base closings scheduled for 1975. The Chinese did approve the "add-on" visit of Congressional leaders Albert and Rhodes. They recently turned down another request by Senator Kennedy for a China trip. Peking undoubtedly watched through our press the backing and forthing on U.S. representation at the Chiang Kai-shek funeral. PRC officials have not protested the Vice President's participation in the event, and we have picked up only one mildly critical CAS report on Chinese reactions to the Rockefeller trip reflecting the views of a middle level PRC diplomat abroad.

The Chinese undoubtedly sense that in the wake of Indochina developments the Administration is cross-pressured on China policy. We have presented conflicting signals to them in recent weeks, and may have raised doubts in Peking about our intentions regarding normalization. On the one hand the President sent a forthcoming message of congratulations to Premier Chou in January, and mentioned his trip to China and the intention to "accelerate" U.S.-PRC relations in his April 10 message to Congress. During your press conference of April 29 you pointed out the President's reaffirmation of our alliances, yet conspicuously omitted mention of Taiwan from the list of major treaty commitments in Asia or the governments we would consult with in reassessing our foreign policy.

At the same time, however, Peking could see us respond to conservative pressures in constituting the Chiang funeral delegation. They read Senator Goldwater's remark that if the Administration is considering

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major changes in China policy, "it will have a helluva fight on its hands." They noted that the President's remarks to the ASNE editors included the comment that he considers U.S. relations with the Republic of China, "a matter of very, very great importance" and that we remain concerned about the ROC's security and stability. Most recently, in his May 6th press conference Mr. Ford failed to mention the re-establishment of U.S.-PRC contact as a major Republican accomplishment, and he looked forward to reaffirming our commitments to Taiwan. He also failed to mention his forthcoming trip to Peking. In addition, they saw your remark to the ASNE group that, "We shall not forget who supplied the arms which the North Vietnamese used to make a mockery of its signature on the Paris accords"; and they must also be pondering Secretary Schlesinger's remark of May 1 that Taiwan is defensible and that as long as we have treaty obligations with the island we will continue to protect it.

These conflicting noises reflect the realities of our domestic political debate, and it is undoubtedly helpful that Peking appreciates these counter-currents. The questions they must be asking themselves are: will the negative pressures generated by Indochina events increase with time or dissipate; will President Ford's future political plans further complicate his intentions and timing regarding normalization; and will Washington therefore be less flexible on the terms of an agreement? We do not propose that you clarify our positions on any of these questions in your meeting with Huang; a period of ambiguity may be useful as developments of the next several months play themselves out. We do believe, however, that you should indicate the President's continuing intention to visit Peking later this year by asking the Chinese for their views on timing, and express interest in sustaining a visible political relationship via another Congressional delegation visit during the summer and by a Mme. Huang call on the First Lady (if you think this would be appropriate within several weeks of the Indochina defeats).

The developments in the American political context are paralleled by conflicting trends in the PRC domestic political scene. The January National People's Congress seemed to indicate a return to regular governmental procedures, the consolidation of civilian leadership around Premier

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Chou En-lai, and the resolution of uncertainties about the leadership succession with the assumption of greater responsibilities (including heightened control over the military) by Vice Premier Teng Hsiao-p'ing and Party leader Chang Ch'un-ch'iao. The Congress passed a relatively flexible economic program in the larger context of a no-nonsense effort to strengthen the state bureaucracy under the slogan of consolidating the "dictatorship of the proletariat." Since the Congress, however, Chou En-lai's health and political role have remained somewhat ambiguous. The Premier has received sixteen foreign visitors "in the hospital" for meetings that have been more symbolic than substantive, yet most reports on his health are positive. He has failed to appear in public in a domestic leadership role since the Congress, yet the reports we do receive on his work routine suggest that he remains active as a final arbiter of domestic and foreign policies.

The most puzzling and disturbing question mark, however, relates to Mao Tse-tung's position. The Chairman remained out of Peking from June of last year, failed to participate directly in the January National People's Congress or the Party Plenum which preceded it, and returned to the capital only on the eve of the Kim Il-song visit. A number of PRC press articles published since the Congress have implied that Mao is unhappy with the economic policies approved by the NPC, and that he has wanted to move more forcefully than other Party leaders against the military officials who resisted the purge of Lin Piao and his (Mao's) continuing stress on an anti-Soviet foreign policy. The Chairman apparently lacks sufficient control over the reconstituted organizations of political control to resist the consensus policies of the Chou/Teng/Chang leadership. In addition, we have received over the past two months several CAS reports of PRC diplomats abroad talking about resentments against the Chairman within China for pressing too hard on the Soviet issue and for having "lost face" because of the Lin Piao affair. Wallposters which seem to ridicule the Chairman by historical analogy have appeared in Canton for some weeks without being torn down and without the writers being arrested. In short, there are signs that the Chairman's position is somewhat insecure. Exactly what the implications might be of a diminution in Mao's stature for the normalization process is difficult to assess at this time.

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